






SKEMA BUSINESS SCHOOL

Country risk, Financial crisis, and Debt Restructuring :
Paris & London Clubs
 Michel Henry Bouchet

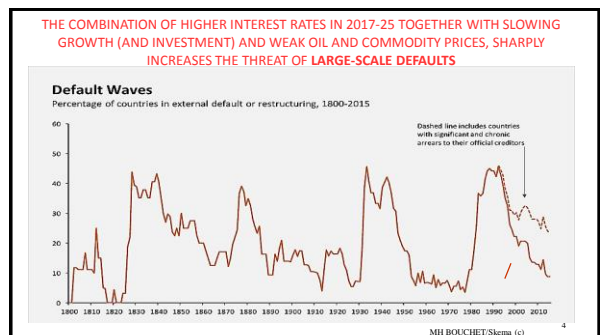
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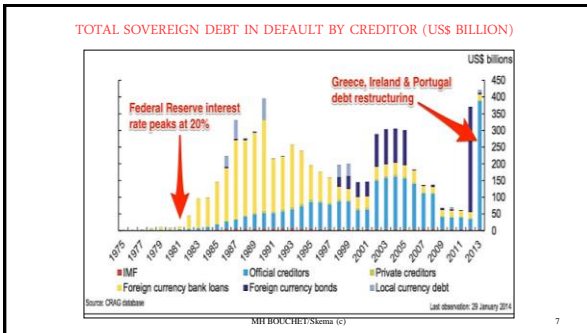
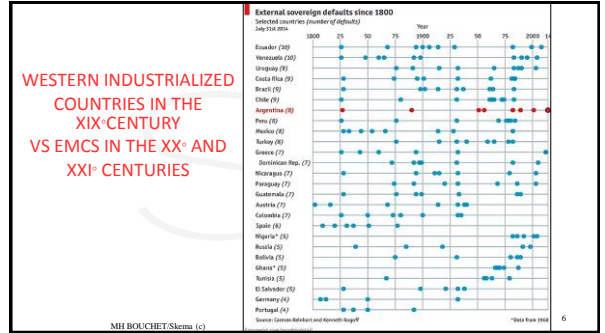
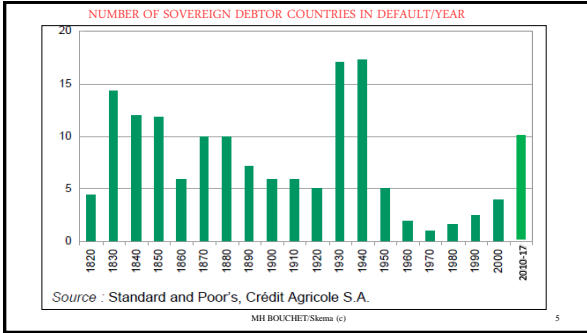



IMF
 2 COUNTRY RISK
 TRAJECTORIES IN 2018?

	 VIETNAM	 PHILIPPINES
Current Account/GDP		
Debt/GDP		
Debt/Exports		
Reserves/Imports (months)		

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Fitch-Rated Sovereign IDR Defaults (1995-2011)

Argentina: Defaulted on more than USD40 billion of sovereign foreign currency bonds in December 2001, most of which were held by non-residents. Debt default partially cured in 2005, but some holdout investors remained, constraining the rating to 'RD' until July 2010.

Dominican Republic: Distressed debt exchange in 2005 affected more than USD1.1 billion of eligible foreign currency-denominated bond debt.

Ecuador: Missed coupon payment on its 2012 global bonds followed by an announcement that the government would selectively default on all global bonds. The rating was lowered to 'RD' in December 2008.

Indonesia: Paris and London Club rescheduling operations in June 1998; further rescheduling in 2000 and 2002. Indonesia maintained payments on the single Fitch-rated sovereign bond outstanding at the time.

Moldova: USD75 million eurobond restructured in 2002, followed by a Paris Club deal.

Russian Federation: Exceptionally, Fitch dates sovereign default to August 1998. Although this was when the Russian Federation defaulted on its local currency debt, it began to incur arrears on foreign currency debt owed to the Paris Club official bilateral creditors very quickly afterwards. Defaults on foreign currency debt instruments held by private creditors occurred in 1999, although payments on Russian Federation eurobonds were maintained and honored.

Uruguay: Distressed debt exchange in March 2003 affecting more than USD5 billion of sovereign foreign currency debt, mostly held by non-residents.

Jamaica: A coercive debt exchange in February 2010 affected the country's domestic debt, which included foreign currency denominated instruments to which Fitch's foreign currency rating applied.


RD - Restricted default.

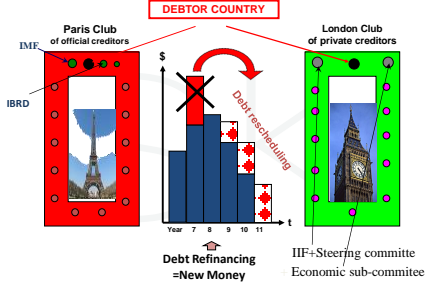
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WHO's WHO?

Five main groups of private and official creditors:

1. The IFIs: IMF and World Bank + RDBs
2. The **Paris Club** of OECD governments
3. Private suppliers: trade debt
4. The **London Club** of international banks
5. Institutional investors (pension and investment funds, hedge funds): Eurobond holders

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DEBTOR COUNTRY

IMF
Paris Club of official creditors
IBRD
Year 7 8 9 10 11
Debt Refinancing = New Money
Debt Rescheduling
London Club of private creditors
IIF-Steering committee
Economic sub-committee

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▶ 1. The Paris Club



<http://www.clubdeparis.org/sections/donnees-chiffres/chiffres-cles>

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THE PARIS CLUB

KEY NUMBERS	
Total amount of agreements	433
Total amount of debtor countries	90
Total amount of debt	583 Billion \$
Total amount of countries in "Classic Terms"	60
Total amount of countries in "Houston Terms"	21
Total amount of countries in "Naples Terms"	36
Total amount of countries in "Cologne Terms"	33

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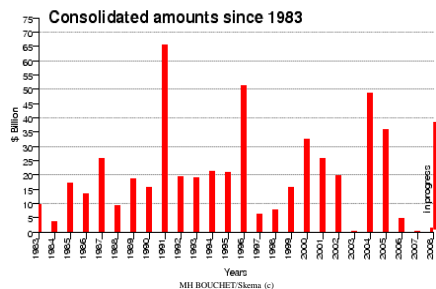
PARIS CLUB DEBT RESTRUCTURING

- ▶ **Official bilateral debt (government to government)** is renegotiated under the auspices of the Paris Club since 1956
 - ▶ Since then, the 21 Paris Club creditors have reached 433 agreements concerning 90 debtor countries.
 - ▶ Total amount of debt covered = **\$583 billion**
 - ▶ Only official debt + officially-guaranteed credits (Coface, Hermes, ECGD, US Eximbank...)
 - ▶ Total claims on EMCs end-2017: \$310 billion
- 10 times meetings/year, for negotiation sessions or to discuss the situation of the external debt of debtor countries or debt related methodological issues (sometimes with the IIF)
 - Russia joined in 1997 and Brazil in end-2016, as sizeable lender in African countries such as Nigeria, Angola and Mozambique.

PARIS CLUB: 7 DEBT RESTRUCTURING GUIDELINES

1. Consensus
2. Comparability of treatment
3. Solidarity among creditors with on-going information exchanges
4. Case by case treatment of debt crisis
5. Conditionality based on IMF adjustment program and monitoring
6. No restructuring of « post-cut off date » debt so as to preserve access to new financing
7. Secretariat provided by French Treasury

PARIS CLUB CONSOLIDATED DEBT AMOUNTS IN US\$ BILLION

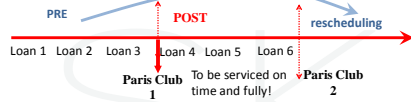


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THE FOUR KEY RULES OF THE PARIS CLUB

1. **Consensus** : no decision can be taken within the Paris Club if it is not the result of a consensus among the participating creditor countries.
2. **Conditionality** : debt treatments are applied only for countries that need a rescheduling and that implement reforms to resolve their payment difficulties. In practice conditionality is provided by the existence of an appropriate programme supported by the IMF, which demonstrates the need for debt relief.
3. **Solidarity** : Creditors agree to implement the terms agreed in the context of the Paris Club.
4. The Paris Club preserves the **comparability of treatment** between different creditors, as the debtor country cannot grant to another creditor a treatment less favourable for the debtor than the consensus reached in the Paris Club.

PRE AND POST CUT-OFF DATE DEBT?



- ▶ Time + Money = To preserve new money and market access, only **pre cut-off date** debt is eligible to debt relief negotiations through rescheduling, refinancing, debt conversion and debt reduction

PARIS CLUB DEBT RESTRUCTURING

▶ From debt rescheduling to debt reduction and debt conversion

- ▶ 09/1990: Houston terms: debt service rescheduling (15/8) for countries with GDP per capita <\$1345
- ▶ Toronto 1988 : 33% debt reduction: Menu approach
- ▶ 12/1991: « London terms » for 23 poorest countries: 50% reduction of eligible debt payments or consolidated debt in NPV, with promise of considering « stock reduction »
- ▶ Naples 1994 67% NPV (flow rescheduling) for EMCs with per capita GDP<US\$500 and D/X ratio >350%
- ▶ Lyon 1996 HIPC 80% debt stock rescheduling
- ▶ Cologne June 1999: debt stock reduction up to 80%

« LONDON TERMS » DEBT RESTRUCTURING

“London Terms”: 12/1991: Paris Club creditors agreed to implement a new treatment on the debt of the poorest countries to raise the level of debt cancellation from the 33.33% as defined in Toronto terms to 50%.
23 countries benefited from London terms until mid-1990s, when these terms were replaced by Naples terms.

London terms included the possibility for creditor countries to conduct, on a bilateral and voluntary basis, debt swaps with the debtor country.

These swap operations in principle could be carried out without limit on official development aid loans, and up to 20% of the outstanding amount or 15 up to 30 million SDR for non-ODA credits.

PARIS CLUB DEBT RESTRUCTURING UNDER THE « LONDON TERMS »

- ▶ Non-ODA credits cancelled to a 50% level through one of the four following options:
 1. - "debt reduction option": 50% of the claims treated cancelled (after possible topping-up), the outstanding part being rescheduled at the appropriate market rate (23 years repayment period including 6-year grace and progressive payments).
 2. - "debt service reduction option": claims rescheduled at a reduced interest rate (23 years repayment period with progressive payments).
 3. - "moratorium interest capitalization option": claims rescheduled at a reduced interest rate (23-year repayment period including 6-year grace and progressive payments).
 4. - "commercial option": claims restructured at the appropriate market rate over a longer period (25-year repayment period including 14-year grace): non-concessional option.
- ▶ ODA credits rescheduled at an interest rate at least as favorable as the original concessional interest rate applying to these loans (30-year repayment period including 12-year grace and progressive repayment).

VIETNAM AND THE PARIS CLUB 12/93

- ▶ Amounts treated = \$544 million
- ▶ Repayment profile treatment = London terms (50% debt cancellation)
- ▶ Cutoff date= January 01, 1990
- ▶ Participating creditors: AUSTRALIA , AUSTRIA , BELGIUM , DENMARK , FRANCE , GERMANY , ITALY , NETHERLANDS , NORWAY , UNITED KINGDOM , UNITED STATES OF AMERICA
- ▶ Observers: JAPAN , SPAIN , SWEDEN , Asian Development Bank , IMF , OECD , UNCTAD , World Bank

CÔTE D'IVOIRE DEBT RELIEF AGREEMENT 11/2011

- ▶ Paris Club external debt relief following the approval by the IMF of a new 3-year arrangement under the Extended Credit Facility on November 4, 2011.
- ▶ “Cologne terms” for implementation of the HIPC initiative debt relief = 80%
- ▶ On an exceptional basis, considering the Republic of Côte d'Ivoire's limited capacity of payment, creditors have agreed to defer and reschedule over a ten-year period the repayment of maturities due on **short term and post-cut off date debts**; and, over an eight-year period the arrears on those claims. They also agreed to defer all the interest due on the amounts treated.
- ▶ These measures are expected to reduce the debt service (including the arrears) due to Paris Club creditors between 1st July 2011 and 30 June 2014 by more than **78%** which corresponds to \$1822 million, of which \$397 million cancelled.

The London Club of debt restructuring

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DEBT RESTRUCTURING OF LONDON CLUB DEBT

- ▶ Commercial banks' claims on EMCs and OECD countries
- ▶ Debt renegotiation workouts

WHAT IS THE « LONDON CLUB »?

- ▶ Since the 1970s, countries facing default have used the London Club process to restructure sovereign debt owed to banks.
- ▶ The London Club has evolved as an ad hoc forum for restructuring negotiations. Each London Club is formed at the initiative of the **debtor country** and is dissolved when a restructuring agreement is signed.
- ▶ Ad hoc London Club "Advisory Committees" are chaired by a leading financial bank.
- ▶ Advisory Committees have included representatives from nonbank creditors (fund managers holding sovereign bonds)
- ▶ The IIF plays a key role in London Club meetings



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WHAT IS THE « LONDON CLUB »?

- ▶ *ad hoc* forum for restructuring negotiations.
- ▶ Each London Club is formed at the initiative of the debtor country
- ▶ London Club "Advisory Committees" are chaired by a leading financial firm with representatives from a cross-section of international banks
- ▶ Meetings in London, New York, Paris, and other financial centers.
- ▶ IIF + Economic Subcommittee = macroeconomic, BOP analysis and debt sustainability reports to the Advisory Committees

Source: IIF



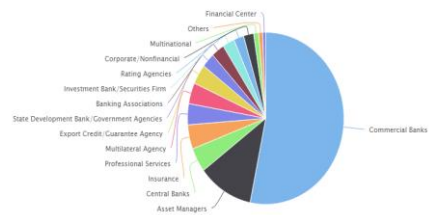
WHAT IS THE IIF?

- ▶ The Institute of International Finance, Inc. (IIF), is the world's only global association of financial institutions.
- ▶ Created in 1983 in response to the international debt crisis, the IIF has evolved to meet the changing needs of the financial community.
- ▶ Members include most of the world's largest commercial banks and investment banks, as well as insurance companies and investment management firms. Among the Institute's Associate members are MNCs, trading companies, ECAs, and multilateral agencies.
- ▶ The Institute has **> 450 members** headquartered **> 70** countries.



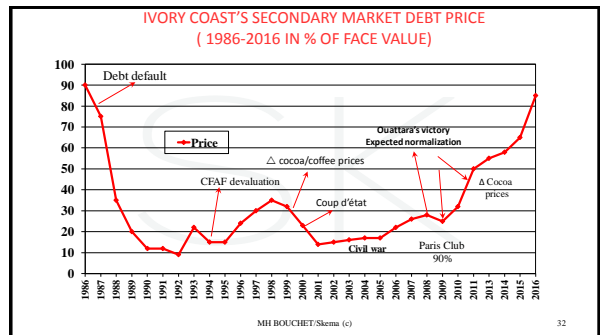
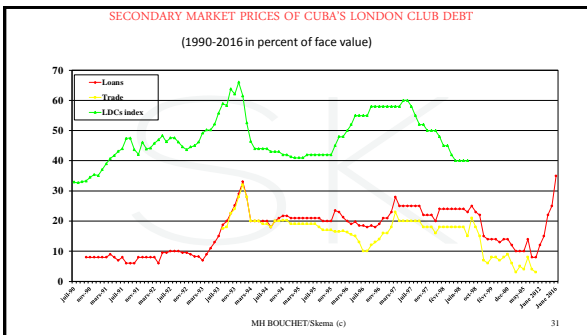
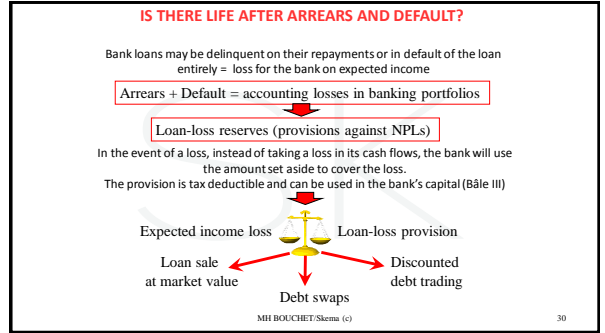
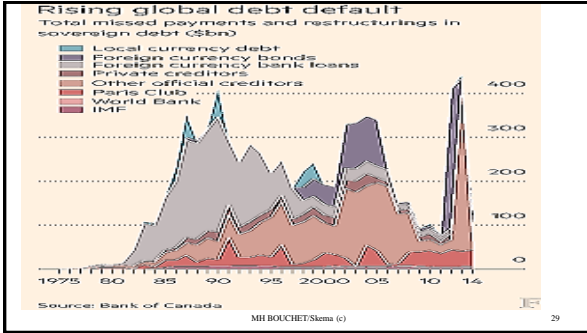
THE IIF= A GLOBAL BANKING UNION

IIF Member Breakdown



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HYPER-EXOTIC DEBT PRICES

- | | |
|--|---|
| <ul style="list-style-type: none"> ▶ Myanmar 20% ▶ Cambodia 20% ▶ Mongolia 22% ▶ North Korea 10% | <ul style="list-style-type: none"> ▶ Irak Bonds 90% ▶ Libya 25-35% ▶ Syria 6-11% ▶ Yemen 30% |
| <ul style="list-style-type: none"> ▶ Argentina (2033 bonds)= 62% following ruling by NY court in 11/2012) ▶ Cuba Loans 10-35% ▶ Cuba Trade 15% ▶ Albania 36% ▶ Bosnia 36% ▶ Serbia 44% | <ul style="list-style-type: none"> ▶ Angola 60% ▶ Ethiopia 60% ▶ Senegal 35% ▶ Sudan 11-14% ▶ Uganda 14-16% ▶ Zimbabwe 1-4% |

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EMCS SECONDARY MARKET DEBT PRICES

COUNTRY / ISSUE	Low Price	High Price	COUNTRY / ISSUE	Low Price	High Price
Africa Hyper-Exotica			Eastern Europe Hyper-Exotica		
Anglia / Trade	50.000%	55.000%	Azerbaijan / Trade	18.000%	23.000%
Anglia / Loans	55.000%	59.000%	Bosnia / Trade	36.000%	41.000%
Cameroon / Trade (non-HPC)	14.000%	20.000%	Georgia / Trade	11.000%	15.000%
Congo / Trade (non-HPC)	22.000%	24.000%	Serbia / Trade	44.000%	54.000%
DR Congo / Loans, Trade (non-HPC)	16.000%	20.000%	Turkmenistan / Trade	23.000%	33.000%
Ghana / Trade (non-HPC)	78.000%	82.000%	Ukraine / Trade	18.000%	25.000%
Kenya / Trade	39.000%	49.000%	Uzbekistan / Trade	20.000%	24.000%
Mozambique / Trade (non-HPC)	28.000%	28.000%	Middle East Hyper-Exotica		
Senegal / Loans, Trade (non-HPC)	22.000%	14.000%	Egypt / Trade	45.000%	75.000%
Surinam / Loans (non-HPC)	11.000%	14.000%	Iraq / Paris Club	84.000%	89.000%
Tanzania / Loans, Trade (non-HPC)	10.000%	13.000%	Iraq / Bonds	91.000%	92.000%
Uganda / Trade (non-HPC)	14.000%	16.000%	Libya / Trade	25.000%	35.000%
Zambia / Loans, Trade (non-HPC)	13.000%	20.000%	Syria / Trade	6.000%	11.000%
Zimbabwe / Trade	1.000%	4.000%	Asia Hyper-Exotica		
Latin America & Caribbean Hyper-Exotica			North Korea / Loans, Certificates		
Cuba / Trade	2.000%	4.000%		9.000%	12.000%
Cuba / Loans	5.000%	10.000%			
Suriname / Loans, Trade	14.000%	18.000%			

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Weak Liquidity:

Angola, Nicaragua, Cameroon, Albania, Congo, Tanzania, Zaire (Rep. Democr.), Zambia, Iraq, North Korea

Limited Liquidity:

Cuba, Egypt, Jordan, Madagascar, Panama, Jamaica, Ivory Coast, Senegal

Moderate Liquidity:

Nigeria, Morocco, Costa Rica, Bulgaria, Peru, Russia, Vietnam

Good Liquidity

Brady Bonds + Eurobonds= Argentina, Brazil, Ecuador, Mexico, Philippines, Poland, Venezuela. South Africa, Turkey